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S E C R E T SECTION 01 OF 03 KATHMANDU 001175

SIPDIS

DEPT FOR SA/INS  
LONDON FOR CGURNEY  
NSC FOR MILLARD  
TREASURY FOR OFAC/NEWCOMB AND TASK FORCE FOR TERRORIST FINANCING  
TREASURY ALSO FOR GENERAL COUNSEL/DAUFHAUSER AND DAS JZARATE  
JUSTICE FOR OFFICE OF THE DEPUTY ATTORNEY GENERAL/DLAUFMAN  
SECDEF FOR OSD/ISA LILIENFELD

E.O. 12958: DECL: 06/19/2013

TAGS: [PGOV](#) [PINS](#) [PTER](#) [NP](#)

SUBJECT: NEPAL: UPDATE ON MAOIST SOURCES OF FINANCING

REF: A. KATHMANDU 1099  
[1B](#). KATHMANDU 567  
[1C](#). KATHMANDU 1133  
[1D](#). 2002 KATHMANDU 2254  
[1E](#). 2002 KATHMANDU 2306

Classified By: DCM Robert K. Boggs for reasons 1.5 (b) and (d).

Summary

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[¶11.](#) (S) Despite the agreed terms of the cease-fire with the Government of Nepal (GoN) barring extortion, Maoists have continued to press businesses and local residents for "donations," increasing both the breadth and scope of their demands. In areas lacking a government presence, the Maoists have begun to collect taxes and royalties on natural resource harvests and skim proceeds from cannabis smuggling. Contrary to earlier reports (refs D and E), the Maoists have lowered their profile in garnering funds from remittances. The GoN has failed to reduce Maoist access to funds and does not appear to be in a position to do so in the near-term. If reports are to be believed, Maoist fund-raising has increased since the commencement of the cease-fire. Some sources indicate that these funds may be intended to build up military supplies for a resumption of hostilities. End summary.

Overview

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[¶12.](#) (U) Nepal's Maoists have adopted several methods to fund their activities. The following provides a summary of Mission information on Maoist sources of finances, including extortion, taxation on natural resource harvests, drug trafficking, and remittances. Also addressed are the limited activities of the Government of Nepal (GoN) to restrict Maoist finances.

Extortion

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[¶13.](#) (C) Nepal's Maoists have continued to extort money and food despite specific prohibitions in the March 13 Code of Conduct adopted as the basis for the current cease-fire (ref A). Over the past three weeks, Maoist cadre have increased their efforts by demanding more funds and broadening their number of targets. According to Sandip Shah, General Manager of Bhote Koshi Power and member of the wealthy Soaltee Group of Companies, the business group has been asked repeatedly for funds. The amounts demanded has tripled since the beginning of the cease-fire. Embassy interlocutors who reside in Kathmandu Valley report that the Maoists have launched widespread extortion drives on a house-to-house basis, with demands ranging up to USD 1,300.

[¶14.](#) (SBU) Throughout rural Nepal, Maoists systematically extort both food and funds to maintain their local forces. At a June 13 meeting of international donors to Nepal, attendees reported an up-tick in Maoist extortion activities nationwide and noted areas of particular concern:

-- The German development agency GTZ reported that Maoist extortion from project staff in Ramechap District (60 kms East of Kathmandu) was increasing and may force the project to shut down;

-- The UN Security Office saw a substantial increase of extortion in Dhankuta District (541 kms East of Kathmandu); and

-- DFID reported a sizable increase in extortion from project staff in Surkhet District (in the Maoist-affected midwest) over the past month.

At the same meeting DFID staff noted that villagers in Humla (a district in Nepal's northwest) expressed frustration that after six years of Maoist local governance and extortion, no services are being provided nor development taking place.

[¶15.](#) (C) An independent AmCit consultant provided the Embassy

with a pre-publication draft of a paper on Nepal's Maoists. In a footnote, he details some of the extortion (termed "revolutionary taxation" by the Maoists) he observed in Maoist controlled areas. Small shopkeepers in Rolpa (a midwestern district in the Maoist heartland) report payments of USD 0.65 per month; and government employees working in Maoist "occupied areas" report payments equal to one day's wages per month, USD 1.30 to 2.60. He also reports that the Maoists are adopting kidnapping for ransom. (Note: The Mission has no confirmation of the use of kidnapping for ransom as a method of fund-raising. End note.)

**16.** (C) The Maoists typically defend their continued practice of extortion by claiming funds so collected are "voluntarily" donated. When a representative of a prominent American firm pressed the issue, he was told that traditional sources of financing--including bank robberies that reportedly had netted them USD 6 million--have been restricted by the cease-fire, requiring the Maoists to fund-raise in other ways. In this particular instance, the Maoist representative stated that he took direction from Maoist negotiator and Central Committee member Krishna Bahadur Mahara (ref A).

#### Taxation of Natural Resource Harvests

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**17.** (SBU) The Embassy has learned through both press reports and visits to rural areas that the Maoists are collecting taxes on harvests of natural resources. During a tour of Doti (a district in Nepal's far-west), the Ambassador was told by a district forestry official that the Maoists had taken over ranger posts and are now collecting fees for harvesting forest products. Forestry fees were previously collected by forest rangers and placed in government coffers (ref B). In an extreme case, the press reported June 14, Maoists in Baglung (a district in Nepal's midwest) were collecting royalties on the harvest of Yarchagumba (an herbal/insect product with a reported effect similar to Viagra). The rare herb ranges in price from USD 1,300 to USD 1,800 per kg in India and China. Under normal circumstances, the government collects royalties of USD 260 per kg. The destruction of forestry offices in the district has left a void in the government's collection capacity which the enterprising Maoists are only too eagerly filling. The press also regularly reports that Maoists stop illicit timber harvesters in Nepal's lowlands and request funds for the harvesters' passage. Those who pay are normally left alone, while those who refuse are usually beaten and have their timber confiscated. (Comment: The taxation of natural resource harvests is difficult to generalize. Maoist activities reflect the resources available in their area of operation and the level of government presence.)

#### Drug Trafficking

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**18.** (C) Superintendent of Police for the Narcotic Drug Control Law Enforcement Unit Hemant Malla reported to poloff and econoff that Maoist insurgents in the middle hills of Nepal levy a tax on both the cultivation and transportation of cannabis. Malla stated that most of the cannabis is smuggled to India. He went on to report that there is some anecdotal evidence that the Maoists are taking a cut of from the Indian smugglers, but of an unknown amount. One source told Malla that a 35 percent tax is being levied on cannabis sold to China through rural Dolpa (ref C). The Dolpa route is not normally a significant route for cannabis smuggling, due to the lack of roads. However, the closure of the Nepal-China border due to Severe Acute Respiratory Syndrome (SARS) led to an increase of cultivation and shipment through Dolpa.

#### Remittances

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**18.** (S) Embassy reports of increasing Maoist interference in remittances (refs D and E) during the November/December 2002 timeframe could not be reaffirmed during interviews with contacts in June 2003. Reports in late 2002 alleged that Maoists were designating individuals to be sent overseas for employment, were recruiting members from overseas to send remittances for the Maoist cause, and extorting remittances from recipient family members in Nepal. In interviews in June 2003, however, interlocutors reported not receiving extortion requests. (Note: The lack of Maoist contact with manpower agencies and others involved in Nepal's growing remittance business does not match recent reports of the Maoists' fund-drive activities. This change in Maoist approach came during a period when remittances were labeled in press and government statements as the only healthy economic sector. The Embassy will continue to expand contacts in this area in an attempt to corroborate and account for this apparent shift. End note.)

#### GoN Actions

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19. (C) The GoN has done very little to suppress Maoist fund-raising or to seize Maoist assets. According to Executive Director Rajan Singh Bhandari, Nepal's central bank (NRB) seized roughly USD 65,000 from accounts of prominent Maoists in early 2002. All of the accounts were held at the Agriculture Development Bank of Nepal. The NRB has made no subsequent seizures and lacks a investigative arm to seek out further Maoist assets. The NRB can claim, however, some success in moving remittance transfers from the traditional hundi/hawala to formal banking channels. The NRB reports that this change increased its foreign exchange holdings by twenty-five percent in the last fiscal quarter.

Comment

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10. (S) Maoist claims that they can no longer fund their activities through traditional sources, i.e., bank robberies, belies the scope of their financial operations. Extortion in Kathmandu Valley and the increase in the demands on Nepalese business groups could well make up for the amounts stolen over the past seven years. It appears that the GoN, out of fear of hampering the peace process, has restrained its police forces from arresting Maoist extorters. The lack of GoN pressure may have emboldened the Maoists to grab as much as they can during the peace process. The level of fund-raising seems to have increased beyond the revenues required to maintain Maoist cadres in the field. Reports of excesses funds has fueled speculation that the Maoists may be using the money to restock and re-equip in possible preparation for a resumption of hostilities.

MALINOWSKI